

*Citation for published version:*

Garcia-Lazaro, A 2019, 'Who are the losers and winners from the EU immigration flows?', pp. 1.

*Publication date:*

2019

*Document Version*

Publisher's PDF, also known as Version of record

[Link to publication](#)

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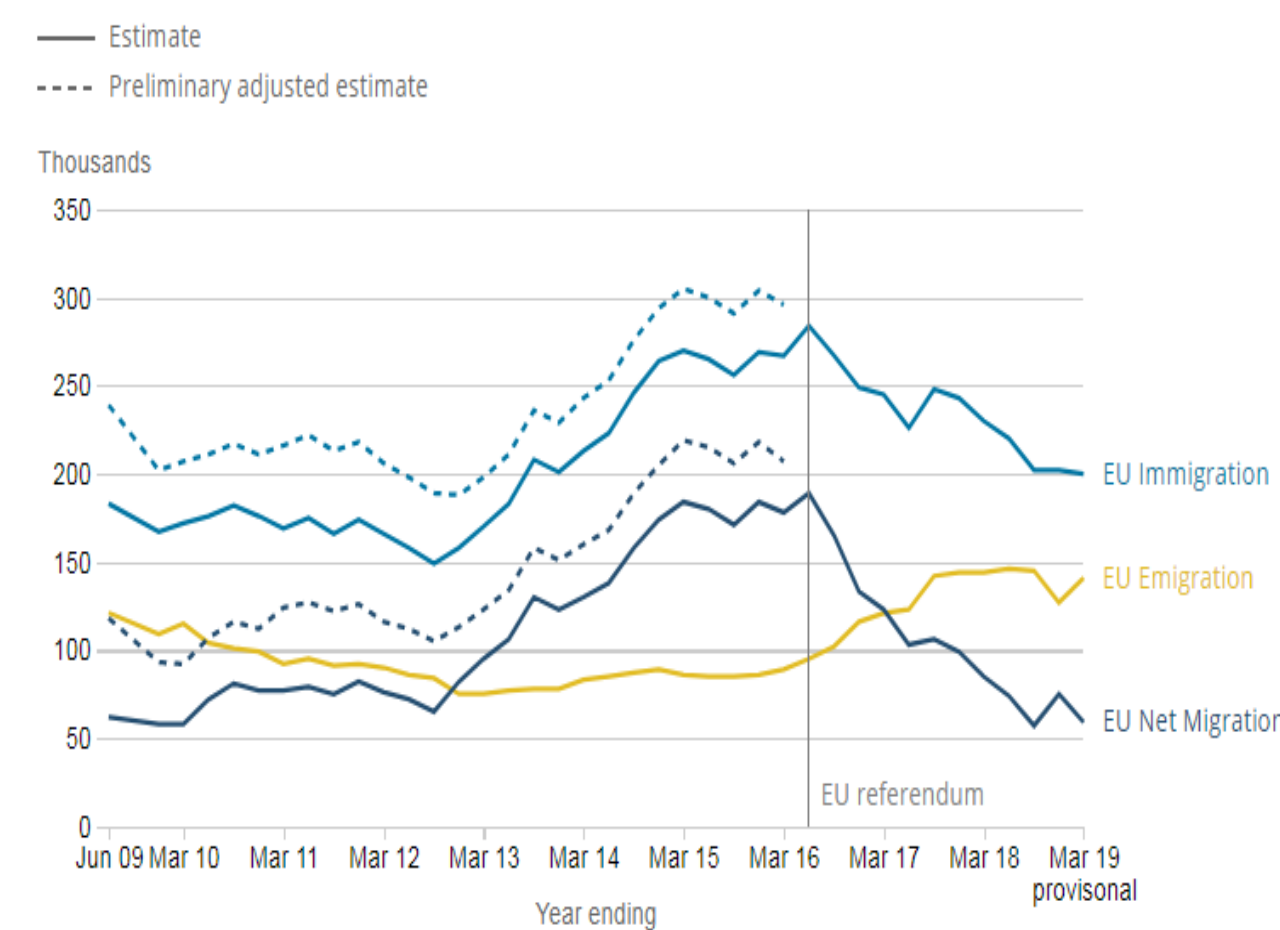
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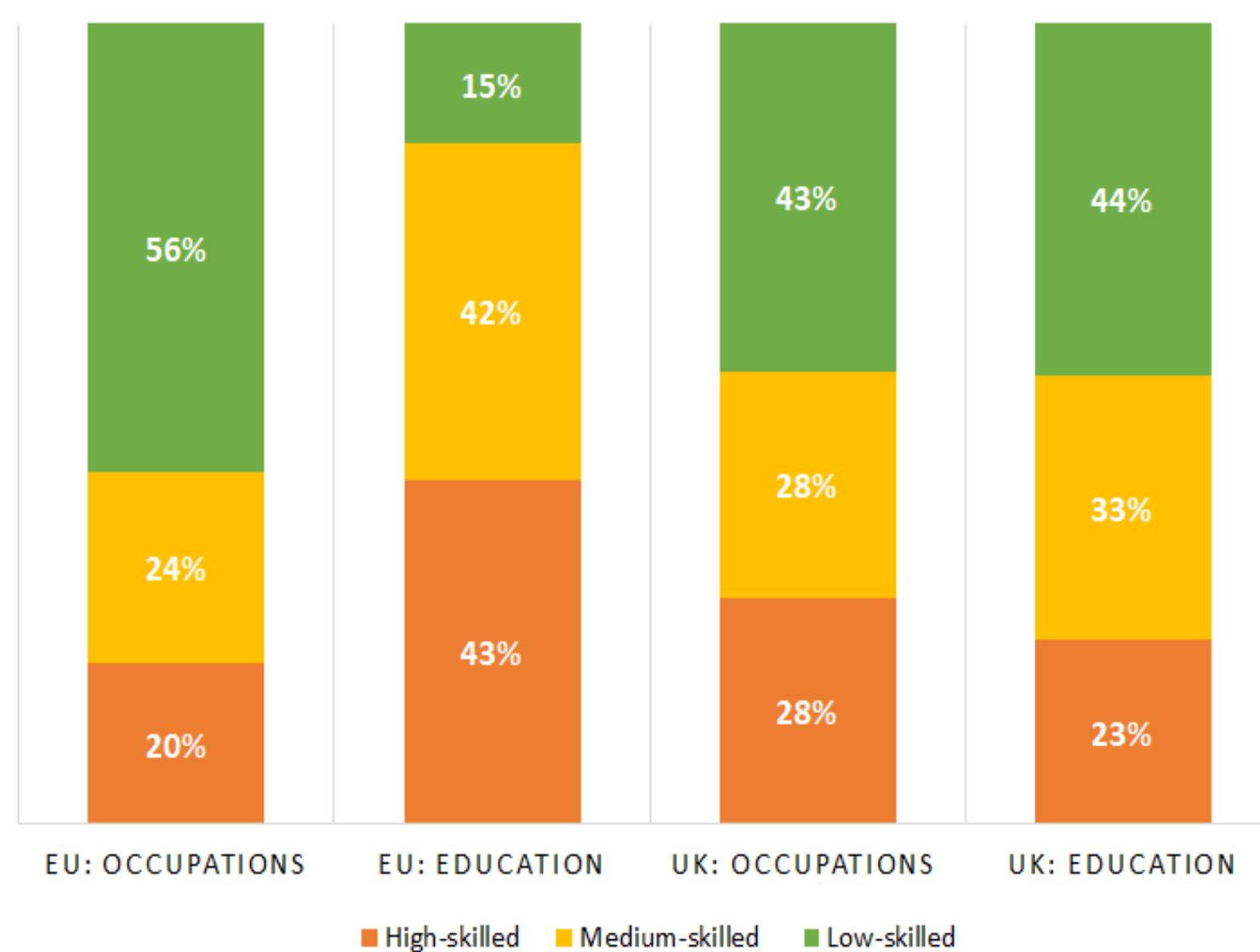
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## Motivation

- 258 million of people living outside of their country, 50% from OECD countries.
- the US, UK, Canada and Australia receive 70% of high-skilled immigrants in the OECD countries.
- The proportion of highly educated workers is higher among immigrants than natives.
- **Brexit is threatening the free movement of labour into the UK.**



Source: Office for National Statistics - Long-Term International Migration



## Aim of the Paper

- We examine the effect of EU migration flows into the UK economy on the main macro variables such as wages, consumption, investment and output per capita.
- We explore the migration shock benefits for workers at three skill levels (high, medium and low).
- We extend the model to account for the complementarities between capital and high-skilled labour.

## Model

- We extend Canova and Ravn (2000) model in two directions:
  - i) Break down labour in three skill levels
  - ii) We incorporate capital-skill complementarity using a CES function.

$$Y_t = Z_t [\alpha S_t^\rho + (1 - \alpha) H_t^\rho]^\frac{1}{\rho}$$

$$H_t = [\omega (H_t^u)^{\rho_h} + (H_t^l)^{\rho_h}]^\frac{1}{\rho_h}$$

$$S_t = [\lambda_k K_t^{\rho_k} + (1 - \lambda_k) (H_t^s)^{\rho_k}]^\frac{1}{\rho_k}$$

- Law motion of the labour force

$$N_t = N_{t-1} + N_{m,t}$$

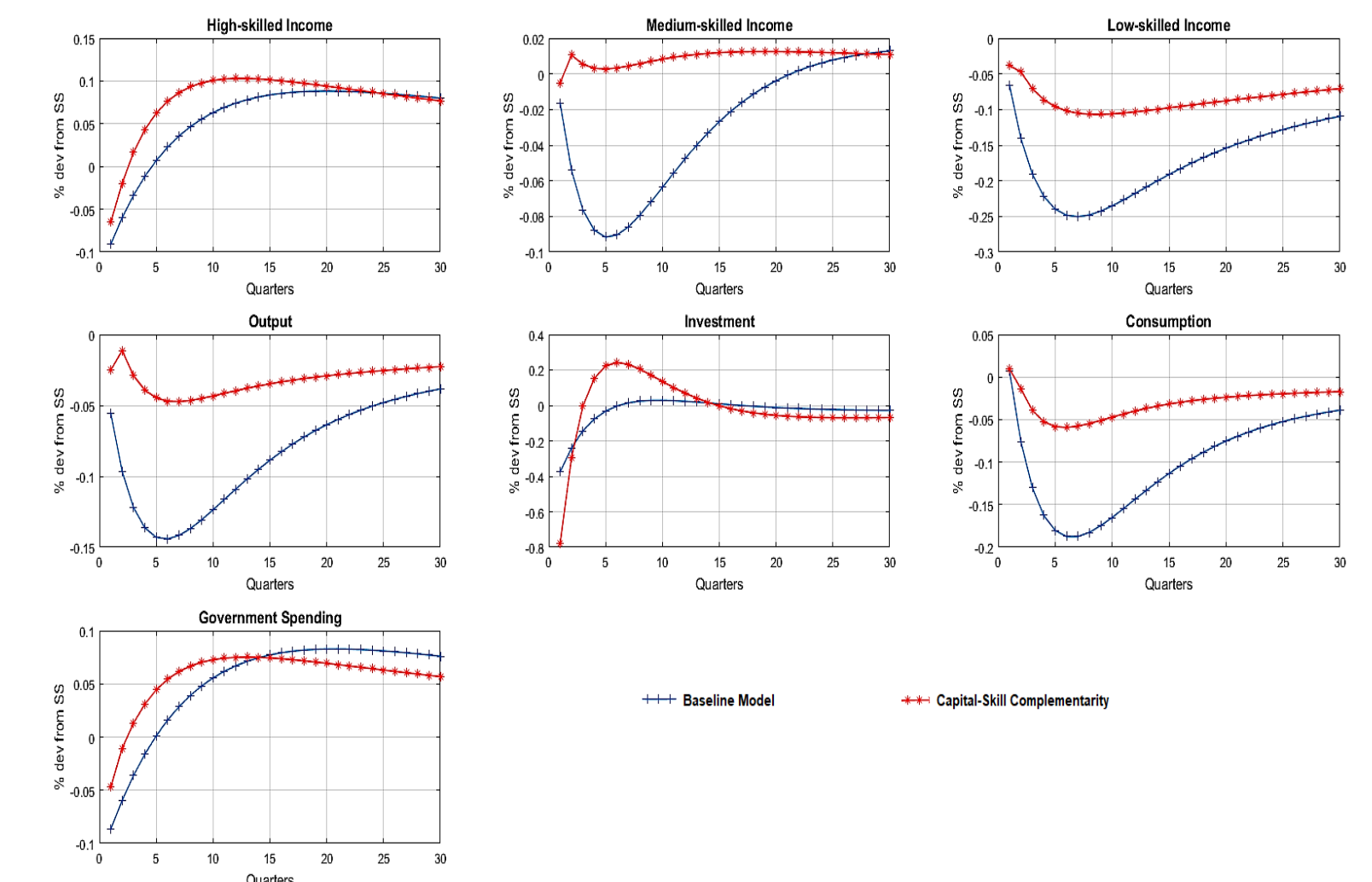
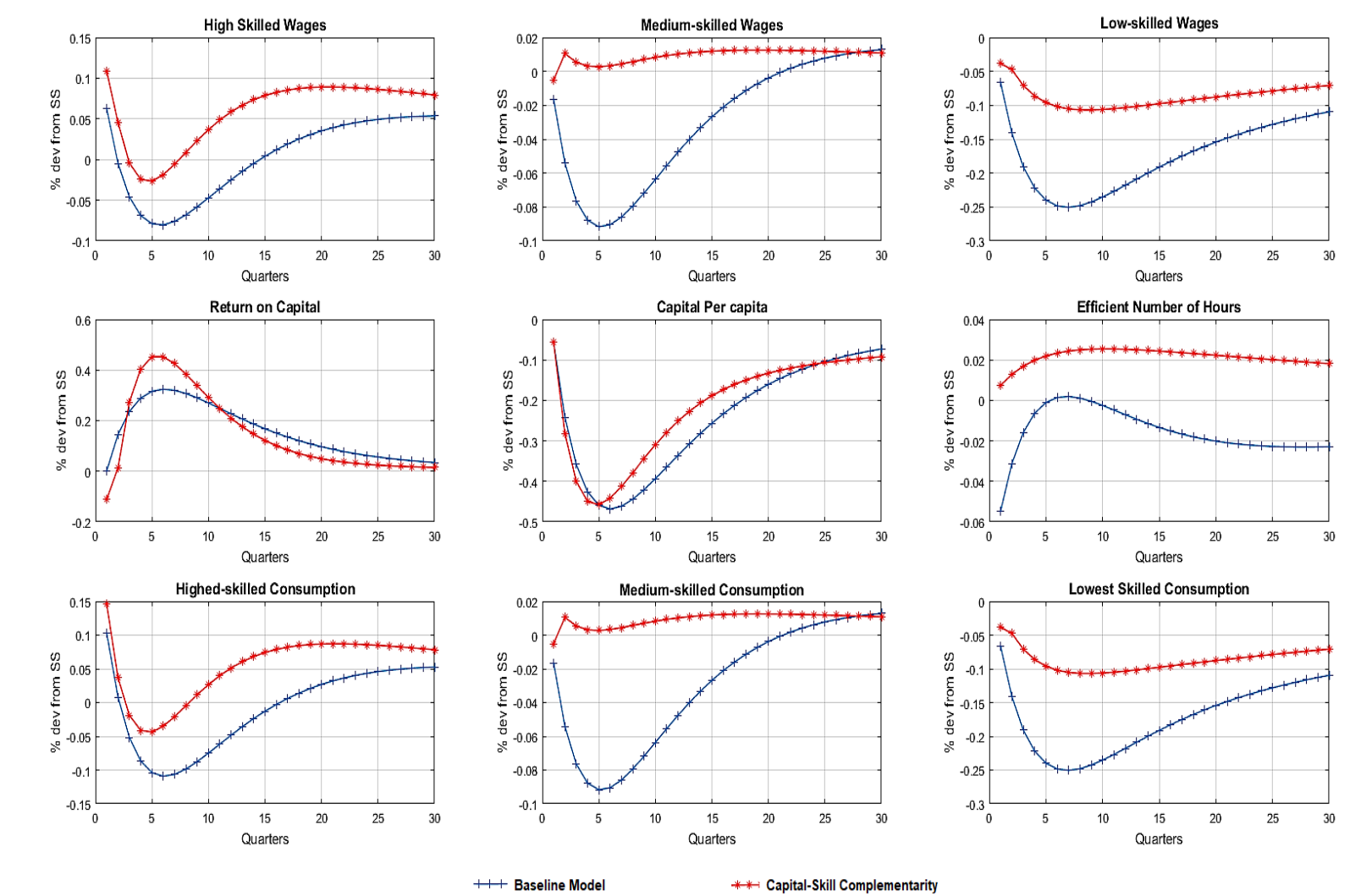
where  $N_{m,t}$  is the size of the newcomers or immigrants at  $t \geq 1$ .

$$N_t^s = (1 - \pi) N_{t-1}^s + \pi p_s N_{t-1} + \lambda_s N_{m,t}$$

$$N_t^u = (1 - \pi) N_{t-1}^u + \pi p_u N_{t-1} + \lambda_u N_{m,t}$$

$$N_t^l = (1 - \pi) N_{t-1}^l + \pi (1 - p_s - p_u) N_{t-1} + (1 - \lambda_s - \lambda_u) N_{m,t}$$

## Macroeconomic effects



## Conclusions

- EU immigration flows benefit high-skilled and medium-skilled workers while the effect turns negative for low-skilled workers.
- When we take into account capital skill complementarities, the losses for low-skilled workers are significantly less compared to the baseline scenario.
- Counting for capital-skill complementarity, the welfare gains extend to middle skill workers.

Model	Welfare gain $\Omega$		
	High-Skilled	Medium-Skilled	Low-Skilled
Transitory Immigration Shock			
Baseline model	0.0212	0.0086	-0.0362
Capital-Skill Complementarity	0.0233	0.0020	-0.0149